

Message Text

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PAGE 01 ISLAMA 12838 01 OF 02 170758Z
ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05
CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 PA-02 PRS-01 AGRE-00 /094 W
----- 040476 /11

R 161053Z DEC 76
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 9080
INFO AMEMBASSY NEW DELHI
AMEMBASSY TEHRAN

UNCLAS SECTION 1 OF 2 ISLAMABAD 12838

E.O. 11652: N/A
TAGS: EFIN, ETRD, PK
SUBJ: PAKISTAN BALANCE OF PAYMENTS

REF: A. STATE 295997 B. ISLAMABAD 9995

SUMMARY: REVISED EMBASSY BALANCE OF PAYMENTS PROJECTIONS FOR CALENDAR YEAR 1976 SHOW A MODEST (5 PERCENT) INCREASE IN EXPORTS OVER CY 75, A TRADE DEFICIT OF \$975 MILLION, A SUBSTANTIAL INCREASE IN REMITTANCES TO \$400 MILLION, CONTINUING AID LOAN DISBURSEMENTS OF NEARLY \$1.1 BILLION AND AN OVERALL BALANCE OF PAYMENTS SURPLUS OF \$96 MILLION. FOR CALENDAR YEAR 1977, WE NOW PROJECT EXPORTS 3 PERCENT ABOVE 1976, A TRADE DEFICIT OF \$1.2 BILLION, A FURTHER 20 PERCENT RISE IN REMITTANCES TO \$480 MILLION, AID LOAN DISBURSEMENTS OF \$1.1 MILLION, AND AN OVERALL BALANCE OF PAYMENTS SURPLUS OF \$4 MILLION. END SUMMARY.

1. THIS MSG RESPONDS TO QUESTIONS POSED BY REF A.
 2. OUR INFORMATION ON PAKISTAN EXPORTS DURING CY 1976 SUGGESTS A RESPECTABLE BUT MUCH LESS DRAMATIC INCREASE
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PAGE 02 ISLAMA 12838 01 OF 02 170758Z

THAN SUGGESTED BY REF A. ACCORDING TO DATA FROM CENTRAL STATISTICAL OFFICE, TOTAL EXPORTS DURING THE FIRST HALF OF CY 1976 CAME TO \$631.77 MILLION, UP 18 PERCENT FROM THE COMPARABLE PERIOD IN 1975. STATE BANK FIGURES SHOW A SIMILAR INCREASE. OUR PRESENT PROJECTIONS FOR THE FULL CALENDAR YEAR ARE FOR AN INCREASE OF ABOUT 5 PERCENT

OVER CY 1975 (\$1,175 MILLION, COMPARED WITH \$1,121.7 MILLION). THE MOST LIKELY EXPLANATION FOR THE ALLEGED DRAMATIC RISE REPORTED IN REF A IS THE DISPROPORTIONATELY LARGE INCREASE IN PAKISTAN EXPORTS TO HONG KONG DURING THIS PERIOD, WHICH WAS ACTUALLY PARTIALLY OFFSET BY A DROP IN EXPORTS TO IRAN. THUS, ANY PARTIAL FIGURE WHICH INCLUDED HONG KONG AND EXCLUDED IRAN WOULD SHOW A LARGER INCREASE THAN THE OVERALL FIGURES.

3. EMBASSY ESTIMATES OF EXPORTS BY COMMODITY FOR CY 1976 AND 1977 ARE AS FOLLOWS:

EXPORTS			
(\$ MILLION)			
	CY 1976	CY 1977	
RAW COTTON	60	55	
COTTON MANUFACTURES	275	290	
RICE	265	210	
OTHER	575	660	
	-----	-----	
	1,175	1,215	

4. REVISED BALANCE OF PAYMENTS ESTIMATES BASED ON THIS INFORMATION AND OTHER DATA WHICH HAVE BECOME AVAILABLE SINCE REF B WAS WRITTEN ARE AS FOLLOWS:

BALANCE OF PAYMENTS		
(\$ MILLION)		
CURRENT ACCOUNT	CY 1976	CY 1977
EXPORTS FOB	1175	1215
IMPORTS FOB	2150	2450
REMITTANCES	400	480
UNCLASSIFIED		

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PAGE 03 ISLAMA 12838 01 OF 02 170758Z

OFFICIAL TRANSFERS		
(GRANT AID)		
OTHER SERVICE EXPORTS	336	376
INTEREST PAYMENTS	130	133
OTHER SERVICE IMPORTS	481	525
CURRENT ACCOUNT BALANCE	-755	- 962

CAPITAL ACCOUNT

LONG TERM LOAN		
DISBURSEMENTS	1085	1125
LONG-TERM PRINCIPAL REPAYMENTS	148	203
OFFICIAL SHORT-TERM		
(NET)	- 60	- 56
NET PRIVATE	" 100	" 100
ERRORS AND OMISSIONS	- 126	-
SURPLUS/DEFICIT	" 96	" 4

5. THE SURPLUS IN CY 1976 WILL BE COVERED BY A RESERVE INCREASE OF \$173 MILLION AND NET IMF DRAWINGS OF \$77. MILLION. IN CY 1977, WE ESTIMATE THAT PAKISTAN WILL HAVE REPURCHASE OBLIGATIONS TALLING SDR \$97.6 MILLION FROM THE IMF WHICH CANNOT BE POSTPONED. IF THE REST OF OUR PROJECTIONS ARE VALID, WE WOULD EXPECT PAKISTAN TO TRY TO DRAW ENOUGH FROM THE IMF UNDER A STANDBY AND POSSIBLE COMPENSATORY FINANCING TO COVER THE REPURCHASE OBLIGATIONS AND AVOID THE NECESSITY FOR A RESERVE DRAWDOWN.

6. OUR EXPORT AND IMPORT ESTIMATES ARE BASED ON THE FOLLOWING ASSUMPTIONS:

A. THE POOR 1976 COTTON CROP, NOW ESTIMATED AT ABOUT 10 PERCENT BELOW THE ALREADY POOR 1975 CROP, WILL PRODUCE ONLY ABOUT 200,000 BALES OF EXPORTABLE SURPLUS

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PAGE 04 ISLAMA 12838 01 OF 02 170758Z

IN RAW COTTON. PRICES, HOWEVER, ARE ASSUMED TO BE SUBSTANTIALLY HIGHER THAN IN 1975 (WE HAVE TAKEN 70 CENT A POUND). A PRICE OF 50 CENT A POUND, REFLECTING THE DISCOUNT PAKISTAN-ORIGIN COTTON HAS RECEIVED IN THE PAST, WOULD LOWER THIS ESTIMATE TO \$39 MILLION.

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PAGE 01 ISLAMA 12838 02 OF 02 170753Z

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UNCLAS SECTION 2 OF 2 ISLAMABAD 12838

B. EXPORTS OF COTTON MANUFACTURES WILL HOLD STEADY. THE POOR COTTON CROP AND DEPRESSED STATE OF THE TEXTILE INDUSTRY INDICATE LITTLE LIKELIHOOD OF SUBSTANTIAL INCREASES IN VOLUME, AND WE HAVE ASSUMED INTERNATIONAL MARKET CONDITIONS IN 1977 BROADLY SIMILAR TO 1976.

C. THE VOLUME OF RICE EXPORTS WILL REMAIN HIGH (760,000) WITH AGGRESSIVE GOP MARKETING EFFORTS, BUT RICE PRICES WILL BE SLIGHTLY BELOW THE 1976 AVERAGE. IF THE PAKISTAN GOVERNMENT'S EFFORTS TO MARKET 800,000 TONS ARE SUCCESSFUL, THIS COULD RAISE THE FIGURE TO \$220 MILLION, EXPORTS OF 700,000 TONS WOULD LOWER IT TO \$193 MILLION.

D. THE GROWTH RATE FOR OTHER EXPORTS IS ASSUMED TO BE ABOUT 15 PERCENT. THIS CATEGORY HAS GROWN RAPIDLY IN THE PAST YEAR, AND IS AN AREA THE GOVERNMENT IS INTERESTED IN.

E. ON THE IMPORT SIDE, WE ASSUME A TEN PERCENT INCREASE IN THE PRICE OF OIL. WITH NO INCREASE, IMPORTS FALL TO \$2,410 MILLION, WITH A 15 PERCENT UNCLASSIFIED

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PAGE 02 ISLAMA 12838 02 OF 02 170753Z

INCREASE, THEY GO UP TO \$2,470 MILLION. CONSTABLE

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